

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

SEATTLE OFFICE
CENTRAL BUILDING
SUITE 650
810 THIRD AVENUE
SEATTLE, WASHINGTON 98101-1118

October 9, 2003

Mr. Michael S. McGavick, President
SAFECO Group of Insurance Companies
SAFECO Plaza
Seattle, WA 98185

RE: SAFECO Surplus Lines Insurance Company
Nunc Pro Tunc Order Adopting Examination Report

Dear Mr. McGavick:

After we mailed the order and report of examination, we discovered a minor clerical error in the date of the order. The attached order has been entered to correct the date and to confirm all other parts of the original order. Please attach this order to the original order and report.

Sincerely,

Patrick H. McNaughton
Chief Examiner

Enclosure

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G 03-83
)	NUNC PRO TUNC
The Financial Examination of)	FINDINGS, CONCLUSIONS,
SAFECO SURPLUS LINES)	AND ORDER ADOPTING REPORT
INSURANCE COMPANY)	OF
A Domestic Insurer.)	FINANCIAL EXAMINATION

On September 19, 2003, Order No. G 03-83 was entered in a matter styled "In the matter of The Financial Examination of Safeco Surplus Lines Insurance Company, A Domestic Insurer." Through clerical error, the date of the entry of that order was shown as August 19, 2003, when, in fact, it was entered on September 19, 2003.

The following order is entered nunc pro tunc correcting only the date of entry of the original order, all other matters contained in the original order being confirmed as originally entered.

BACKGROUND

An examination of the financial condition of **SAFECO SURPLUS LINES INSURANCE COMPANY** (the Company) as of December 31, 2000, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on June 11, 2003. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

SAFECO SURPLUS LINES INSURANCE COMPANY
Nunc Pro Tunc Order Adopting Examination Report

October 2, 2003

Mailing Address: P.O. Box 30253 • Olympia, WA 98504-0253
Street Address: 1000 Capitol Blvd. • Tumwater, WA 98501

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 24 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **SAFECO SURPLUS LINES INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

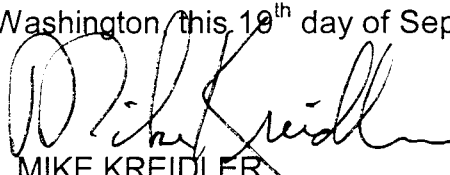
The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 3 through 7.

1. The Company is ordered to submit for approval to the Washington Insurance Commissioner's Office (OIC) an inter-company agreement with SAFECO Asset Management Company (SAM) and pertinent affiliates in compliance with RCW 48.31B.030(1)(b)(iv) and RCW 48.31B.030(1)(a). Instruction 1, Examination Report, page 3.
2. The Company is ordered to review and continue its efforts to substantially strengthen controls in the filing of its annual statements in compliance with RCW 48.05.250(1). Instruction 2, Examination Report, page 3.
3. The Company is ordered to correct and maintain amortization schedules on individual investments that will tie to the amortization reported in Schedule D and is ordered to comply with RCW 48.12.170(1)(b) which provides that bonds or evidences of debt having a fixed term and rate purchased above or below par shall be valued on the basis of the purchase price adjusted so as to bring the value to par at the earliest date callable or maturing at par or in lieu of such method, according to such accepted method of valuation as is approved by the commissioner. Instruction 3, Examination Report, page 4.

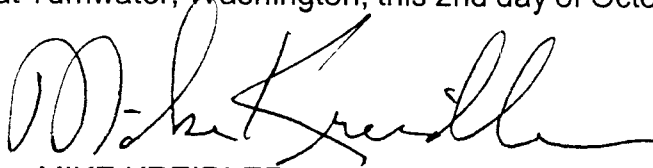
4. The Company is ordered to confirm short-term investments and report only those that belong wholly and exclusively to the Company in compliance with RCW 48.12.010. Instruction 4, Examination Report, page 5.
5. The Company is ordered to comply with RCW 48.31B.030(1)(b)(i)(A) which requires prior approval of inter-company transactions which exceed 3% of the Company's prior year's admitted assets. Further, the Company is given notice to cease and desist activity which violates Chapter 48.31B RCW and is given notice of and is subject to applicable remedies contained in RCW 48.31B.050. The remedies and penalties under the Code do not provide for non-admission of the asset, only cease and desist, avoidance of the transactions and possible monetary penalties. Instruction 5, Examination Report, page 5.
6. The Company is ordered to use due care and diligence in the tracking and oversight of custodial arrangements entered into in compliance with RCW 48.05.280, WAC 284-07-050(2) and to maintain compliance with NAIC guidelines. Instruction 6, Examination Report, page 6.
7. The Company is ordered to keep complete and correct finance committee minutes in compliance with RCW 48.13.340 and RCW 48.05.280. Instruction 7, Examination Report, page 6.
8. The Company is ordered to adopt individual investment guidelines that cover the investment requirements in the Washington Insurance Code. Comments and Recommendations 1, Examination Report, page 7.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington this 19th day of September, 2003.


MIKE KREIDLER
Insurance Commissioner

2003. Entered, nunc pro tunc, at Tumwater, Washington, this 2nd day of October,

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with the first name "Mike" and last name "Kreidler" clearly distinguishable.

MIKE KREIDLER
Insurance Commissioner

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Safeco™

RECEIVED
JUL 16 2003

INSURANCE COMMISSIONER
COMPANY SUPERVISION

July 14, 2003

SCANNED

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of the Insurance Commissioner
P. O. Box 40255
Olympia, WA 98504-0255

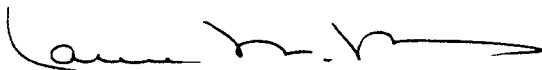
Re: Examination Report of Safeco Surplus Lines Insurance Company
as of December 31, 2000

Dear Mr. Odiorne:

Enclosed are Safeco's responses to the draft reports of examination. Do not hesitate to contact me if questions or concerns arise in the course of your review.

We would like to take this opportunity to express our appreciation for the professionalism demonstrated by the Department staff. We appreciate having had the opportunity to work with them.

Sincerely,



Laura M. Murphy
Vice President and Associate General Counsel

Enc.

SAFECO SURPLUS LINES INSURANCE COMPANY
("the Company")

COMPANY RESPONSES

Safeco Surplus Lines Insurance Company has reviewed the Instructions, Comments and Recommendations contained in the Report of Examination (as of December 31, 2000), and makes the following responses. In general, corrections or changes in procedure required by the report already have been put into place. There are some matters about which the Company disagrees with the report's findings, and these are described below.

INSTRUCTIONS

1. Insurer Holding Company Act violations

Within the Safeco group of companies and pursuant to the operation of existing intercompany agreements, we view employees who perform investment activity as employees of the entity for which they are performing investment services. For this reason, we believe it unnecessary to have an investment services agreement between the companies. However, the Company will comply with the instruction that a specific written agreement for investments be implemented.

2. Errors in annual statements

The Company has made the necessary correction or change in procedure. The Company notes, however, that as to the Indianapolis Gas Company bond, the entire position was sold on August 21, 1997, and so would not be reflected in the 2000 Annual Statement.

3. Bonds – Amortization

The Company believes its amortization schedules are valid. The schedules were derived from an accounting model in PAM, an accounting system used by major insurers around the country. The Company notes that the total variance between the amortized cost on Exhibit 1 to the exam report and the PAM schedule's amortized cost is 0.006%.

4. Short-term investment not confirmed

The Company agrees that BNY Western Trust Company did not confirm the asset during the examination despite repeated requests, and has informed BNY Western that this is not acceptable. Regarding the absence of a CUSIP number, the Company notes that AIP Commercial Paper does not have a CUSIP because it is not a publicly traded fund.

5. Receivable from parent -- excess loan

The Company has made the necessary manual corrections or changes in procedure. In addition, the cash management database is being re-written to provide an interface that will disallow any transaction that would exceed the lending limits.

6. Safekeeping of securities

The custody agreement was revised on July 23, 2001, and amended on August 23, 2001, to comply with NAIC guidelines.

7. Incomplete finance committee minutes

The Company has made the necessary correction or change in procedure.

COMMENTS AND RECOMMENDATIONS

1. Investment guidelines

The Company is considering the instruction that it maintain both individual company investment guidelines as well as individual state investment guidelines. The Company notes that it monitors investments for compliance with the Washington Code, and that this is a specific responsibility of the Corporate Finance compliance analyst. Corporate Finance has developed a comprehensive surveillance system to ensure that all Washington insurance company investments comply with the Washington investment code.

Respectfully submitted,



Christine B. Mead
Senior Vice President and Secretary